

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Les Cheneaux Community Schools	County Mackinac
Fiscal Year End June 30, 2006	Opinion Date August 16, 2006	Date Audit Report Submitted to State September 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

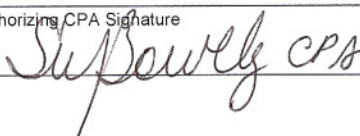
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature 	Printed Name Sue A. Bowlby		License Number 1101020765

**Les Cheneaux Community Schools**

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**Financial Report  
with Supplemental Information**

**June 30, 2006**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**Independent Auditor's Report**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
St. Ignace, MI 49781

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Les Cheneaux Community Schools as of and for the year ended June 30, 2006, which collectively comprise the Les Cheneaux Community School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Les Cheneaux Community School's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Les Cheneaux Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Superintendent and Board of Education  
Les Cheneaux Community Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, on our consideration of Les Cheneaux Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis information and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Les Cheneaux Community Schools, basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 16, 2006

## **Administration's Discussion and Analysis**

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Les Cheneaux Community Schools, a K-12 School District located in Mackinac County, Michigan, has chosen to implement the provisions of Government Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Les Cheneaux Community Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

#### **Fund Financial Statements:**

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, which are comprised of Debt Service.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### **District-Wide Financial Statements:**

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide financial statements.



**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2005 and 2006.

**Net Assets Summary**

	<u>2005</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 905,158	\$ 790,428
Capital assets	7,266,148	7,265,804
Less: Accumulated depreciation	<u>(1,576,607)</u>	<u>(1,628,692)</u>
Capital assets, net book value	<u>5,689,541</u>	<u>5,637,112</u>
Total assets	<u>\$ 6,594,699</u>	<u>\$ 6,427,540</u>
<b>Liabilities</b>		
Current liabilities	\$ 714,958	\$ 690,342
Long-term liabilities	<u>3,896,362</u>	<u>3,672,648</u>
Total liabilities	<u>4,611,320</u>	<u>4,362,990</u>
<b>Net Assets</b>		
Invested in capital assets – net of related debt	1,353,368	1,803,650
Restricted various funds	338,656	272,198
Unrestricted	<u>291,355</u>	<u>(11,298)</u>
Total net assets	<u>1,983,379</u>	<u>2,064,550</u>
Total liabilities and net assets	<u>\$ 6,594,699</u>	<u>\$ 6,427,540</u>

**Analysis of Financial Position**

During fiscal year ended June 30, 2006, the District's net assets increased by \$81,171.

**A. Depreciation Expense**

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2006 depreciation expense was \$188,642.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

**B. Capital Outlay Acquisitions**

Actual capital acquisitions for fiscal year ended June 30, 2006 were \$124,471.

Combined with the increase in accumulated depreciation, net assets (i.e., net book value) invested in capital assets decreased by \$52,429 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

**C. Debt, Principal Payments**

The District made principal payments on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>New</u> <u>Borrowings</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>06/30/06</u>
Bonds Payable	\$ 4,055,385	\$ -	\$ 241,923	\$ 3813,462
Notes Payable	40,000	70,000	90,000	20,000
Compensated Absences and Retirement Benefits	<u>208,412</u>	<u>80,990</u>	<u>30,900</u>	<u>258,502</u>
Totals	<u>\$ 4,303,797</u>	<u>\$ 150,990</u>	<u>\$ 362,823</u>	<u>\$ 4,091,964</u>

**Results of Operations:**

For the fiscal year ended June 30, 2005 and 2006 the District wide results of operations were:

	<u>2005</u>	<u>2006</u>
<b>General Revenue:</b>		
Property Taxes Levied for General Operations	\$ 1,975,490	\$ 2,071,431
Property Taxes Levied for Debt Service	412,628	507,675
Property Taxes Levied for Capital Projects	78,201	89,387
Other – Federal, State and Local	1,125,096	1,071,517
Other – Investment Earnings	<u>44,357</u>	<u>71,127</u>
Total General Revenue	<u>3,635,772</u>	<u>3,811,137</u>
<b>Program Revenue:</b>		
Charges for Services – Local	107,338	125,997
Operating Grants – Federal and State	<u>625,170</u>	<u>456,355</u>
Total Program Revenue	<u>732,508</u>	<u>582,352</u>
<b>Expenses:</b>		
Instruction and Instructional Service	2,247,404	2,165,117
Support Services	1,238,898	1,548,867
Food Services	149,308	145,832
Athletics	93,623	122,784
Interest on Long-Term Debt	231,778	206,266
Depreciation (Unallocated)	<u>138,073</u>	<u>123,452</u>
Total Expenses	<u>4,099,084</u>	<u>4,312,318</u>
Changes in Net Assets	269,196	81,171
Net Assets – Beginning	<u>1,714,183</u>	<u>1,983,379</u>
Net Assets – Ending	<u><u>\$ 1,983,379</u></u>	<u><u>\$ 2,064,550</u></u>

**1. Property Taxes levied for General Operations (General Fund Property Taxes)**

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. The District also levies 2.5 mills for school bonds, .45 mills for school bus bonds, and .4772 mills for its sinking fund. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

During fiscal year 2005-2006, the District's Non-Homestead TV was \$112,975,238 as reported to the district by Mackinac County in May, 2005 and as reported by the district on the L-4029. Throughout the year, however, the Non-Homestead TV can be adjusted by the Michigan Tax Tribunal, July or December Township Boards of Review, and/or a Michigan State Tax Commission Official Order.

**Per Student, Foundation Allowance:**

Annually, the State of Michigan sets the per student foundation allowance. The Les Cheneaux Community Schools foundation allowance was \$7,315 per student for the 2005–2006 school year. The District's 2004-2005 foundation allowance per student increased \$175 from \$7,140.

**Student Enrollment:**

The District's student enrollment for the fall count of 2005-2006 was 384.09 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>
2005 – 2006	384.09
2004 – 2005	415.00
2003 – 2004	413.09
2002 – 2003	427.44
2001 – 2002	436.42

Subsequent to year end June 30, 2006, preliminary student enrollments for future years indicate that enrollments will continue to decline.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**
**General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual &amp; Original Budget</u>	<u>Revenues Variance Actual &amp; Final Budget</u>
2001 – 2002	3,580,996	3,580,996	3,600,358	19,362	19,362
2002 – 2003	3,783,626	3,783,626	3,766,440	(17,186)	(17,186)
2003 – 2004	3,549,885	3,582,293	3,552,165	2,280	(30,128)
2004 – 2005	3,481,849	3,633,536	3,681,707	199,858	(48,171)
2005 – 2006	3,472,389	3,512,669	3,524,783	52,394	(12,114)

**General Fund Expenditures Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual &amp; Original Budget</u>	<u>Expenditures Variance Actual &amp; Final Budget</u>
2001 – 2002	3,601,341	3,601,341	3,564,005	37,336	37,336
2002 – 2003	3,792,275	3,792,275	3,768,231	24,044	24,044
2003 – 2004	3,495,747	3,631,805	3,576,345	(80,598)	55,460
2004 – 2005	3,462,354	3,451,495	3,471,779	(9,425)	(20,284)
2005 – 2006	3,534,881	3,588,863	3,605,620	(70,739)	(16,757)

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Les Cheneaux Community Schools amends its budget quarterly during the school year. For the fiscal year 2005-2006, the budget was amended throughout the year.

**Change from Original to Final Budget:**

## General Fund Revenues:

Total Revenues Original Budget	\$ 3,472,389
Total Revenues Final Budget	<u>3,512,669</u>
Increase in Budgeted Revenues	<u>\$ 40,280</u>

The District's final budgeted general fund revenues differed from final budget by \$12,114, a variance of .34%.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 3,534,881
Total Expenditures Final Budget	<u>3,588,863</u>
Increase in Budgeted Expenditures	<u>\$ 53,982</u>

As indicated above, the District's budgeted expenditures were more than final budget by \$16,757 or .47%.

**Contacting the District's Financial Management:**

This financial report is designed to provide our taxpayers, creditors, investors, and constituents with a general overview of the Les Cheneaux Community School's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions concerning this report please contact Rodney Goehmann, Superintendent, or Kris Hill, Business Manager at 298 East M-134, P.O. Box 366, Cedarville, Michigan 49719, or by calling 906-484-2256 during the hours of 8:00 A.M. to 4:00 P.M.

## **Basic Financial Statements**

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# Les Cheneaux Community Schools

## Statement of Net Assets June 30, 2006

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 550,014
Accounts receivable	231,258
Inventories	1,206
Prepays & other assets	7,950
Total current assets	790,428
<b>Noncurrent Assets</b>	
Capital assets	7,265,804
Less: accumulated depreciation	(1,628,692)
Total noncurrent assets	5,637,112
Total assets	\$ 6,427,540
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 11,903
Accrued salaries and liabilities	227,809
Current portion of long-term debt	419,316
Accrued interest	31,314
Total current liabilities	690,342
<b>Noncurrent Liabilities</b>	
Bonds payable	3,556,448
Termination and post-retirement benefits payable	116,200
Total noncurrent liabilities	3,672,648
Total liabilities	4,362,990
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,803,650
Restricted for:	
Food service	(3,999)
Debt service	107,556
Athletics	(1,164)
Capital Projects	69,805
Self Funded Insurance	100,000
Unrestricted	(11,298)
Total net assets	\$ 2,064,550



# Les Cheneaux Community Schools

## Statement of Activities Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Contributions & Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
Government Activities:				
Instruction and Instructional Services	\$ 2,165,117	\$ 15,253	\$ 367,130	\$ (1,782,734)
Support services	1,548,867	25,228	-	(1,523,639)
Food Services	145,832	37,785	83,471	(24,576)
Athletics	122,784	47,731	5,754	(69,299)
Interest on long-term debt	206,266	-	-	(206,266)
Depreciation (Unallocated)	123,452	-	-	(123,452)
Total Governmental Activities	<u>\$ 4,312,318</u>	<u>\$ 125,997</u>	<u>\$ 456,355</u>	(3,729,966)
General Revenues:				
Taxes				
Property taxes, levied for general operations				2,071,431
Property taxes, levied for debt service				507,675
Property taxes, levied for capital projects				89,387
Grants (unrestricted)				965,671
Interest and investment earnings				71,127
Miscellaneous				105,846
Total General Revenues				<u>3,811,137</u>
Changes in Net Assets				81,171
Net assets:				
Beginning of year				<u>1,983,379</u>
End of year				<u>\$ 2,064,550</u>

# Les Cheneaux Community Schools

## Balance Sheet Governmental funds June 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 265,859	\$ 261,153	\$ 23,002	\$ 550,014
Accounts receivable	230,233	-	1,025	231,258
Due from other funds	41,921	13,435	7,863	63,219
Inventory	-	-	1,206	1,206
Prepays & other assets	7,950	-	-	7,950
Total Assets	<u>\$ 545,963</u>	<u>\$ 274,588</u>	<u>\$ 33,096</u>	<u>\$ 853,647</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,903	\$ -	\$ -	\$ 11,903
Accrued salaries and liabilities	225,170	-	2,639	227,809
Due to other funds	22,225	20,142	20,852	63,219
Total liabilities	<u>259,298</u>	<u>20,142</u>	<u>23,491</u>	<u>302,931</u>
<b>Fund Balances</b>				
Reserved for debt service	-	254,446	-	254,446
Unreserved and undesignated	186,665	-	-	186,665
Designated, food services	-	-	287	287
Designated, athletics	-	-	1,150	1,150
Designated, capital projects	-	-	8,168	8,168
Designated, self-funded insurance	100,000	-	-	100,000
Total fund balances	<u>286,665</u>	<u>254,446</u>	<u>9,605</u>	<u>550,716</u>
Total liabilities and fund balances	<u>\$ 545,963</u>	<u>\$ 274,588</u>	<u>\$ 33,096</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	7,265,804	
Accumulated depreciation is	<u>(1,628,692)</u>	
		5,637,112
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds and notes payable		(3,833,462)
Compensated absences		(258,502)
Accrued interest is not included as a liability in governmental funds		<u>(31,314)</u>
Net assets of governmental activities		<u>\$ 2,064,550</u>

# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Totals
<b>Revenues</b>				
Local sources	\$ 2,145,503	\$ 577,770	\$ 182,817	\$ 2,906,090
State sources	1,037,504	-	7,240	1,044,744
Federal sources	295,297	-	76,231	371,528
Interest earned	46,479	23,051	1,597	71,127
Total Revenues	3,524,783	600,821	267,885	4,393,489
<b>Expenditures</b>				
Current:				
Athletics	-	-	120,910	120,910
Food service	-	-	144,319	144,319
Debt service	-	539,251	-	539,251
Capital projects	-	-	61,668	61,668
Instruction	2,085,318	-	-	2,085,318
Support services	1,520,302	-	1,016	1,521,318
Total expenditures	3,605,620	539,251	327,913	4,472,784
<b>Excess of Revenues (Expenditures)</b>	(80,837)	61,570	(60,028)	(79,295)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	63,553	20,000	87,406	170,959
Operating transfers out	(87,406)	(63,553)	(20,000)	(170,959)
Total other financing sources (uses)	(23,853)	(43,553)	67,406	-
<b>Net Changes in Fund Balances</b>	(104,690)	18,017	7,378	(79,295)
<b>Fund Balances - Beginning of year</b>	391,355	236,429	2,227	630,011
<b>Fund Balances - End of year</b>	\$ 286,665	\$ 254,446	\$ 9,605	\$ 550,716

## Les Cheneaux Community Schools

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities Year Ended June 30, 2006

Net Changes in fund balances - Total governmental funds \$ (79,295)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	124,771	
Current Depreciation Expense	<u>(177,200)</u>	(52,429)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:	
Bond principal	331,923

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Compensated absences	(120,090)
Accrued Interest	<u>1,062</u>

Changes in net assets of governmental activities	<u>\$ 81,171</u>
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**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

	Private- Purpose Trust	Agency Fund
<b>Assets</b>		
Cash and short-term investments	\$ 6,450	\$ 54,422
<b>Liabilities</b>		
Due to Other Units	\$ -	\$ 54,422
<b>Fiduciary Net Assets</b>		
Restricted	\$ 6,450	

## Les Cheneaux Community Schools

### Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2006

	Private- Purpose Trust
<b>Additions</b>	
Contributions and proceeds from fundraising	\$ 700
Interest	288
Total Additions	988
<b>Deductions</b>	
Scholarships & Insurance Payments	-
Excess of Revenues Over Expenditures	988
<b>Fiduciary Net Assets - Beginning of Year</b>	5,462
<b>Fiduciary Net Assets - End of Year</b>	\$ 6,450

## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Les Cheneaux Community Schools conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District implemented the provisions of the Statement. The District also implemented GASB#33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

**Financial Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

**BASIS OF PRESENTATION****District-wide Statements**

The District's basic financial statements include both district-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) except for fiduciary funds. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the district-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The district-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the district-wide financial statements, the District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

**Fund Financial Statements**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The various funds are grouped, in the combined financial statements in this report, into generic fund types of broad fund categories as follows:

**Governmental Funds** – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Debt Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds.

Capital Project Fund – The Capital Project fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made for the General fund. The School District's Capital Project fund is the Sinking Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

**Major and Nonmajor Funds**

The funds are further classified as major or nonmajor as follows:

**Fund*****Major:***

General Fund

Debt Service

***Nonmajor:***

Special Revenue

Food Service

Athletics

Capital Projects

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the district-wide statement uses the economic resources measurement focus.

**Accrual**

Governmental activities in the district-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Les Cheneaux Community Schools taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes which are due September 15.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The tax rates for the year ended June 30, 2006, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	18.00 per \$1,000 taxable value (Non-Homestead Property Only)
Sinking Fund	.4772 per \$1,000 taxable value (Homestead and Non-Homestead Property)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Cash and Investments – For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the District.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Receivables – In the district-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include grants.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The District capitalizes only those assets over \$5,000.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the district-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

**Compensated Absences** – The liability for compensated absences reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Equity Classifications**

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Budgets**

The School District formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2005. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Budget Violations – Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction	\$ 2,083,482	\$ 2,085,318	\$ (1,836)
Support Services	1,505,381	1,520,302	(14,921)
Other Financing Uses	88,023	87,406	(617)
Debt Service Fund:			
Interest	206,186	207,178	(992)
Principal	315,000	331,923	(16,923)
Other	-	150	(150)

**Note 3 - Deposits and Investments**

**Deposits**

The School District's deposits are deposited in one local financial institution. Deposits are carried at cost.

	<u>Primary</u>	<u>Fiduciary</u>
Deposits per Financial Statements:		
Checking, Savings and		
Certificates of Deposit	\$ <u>550,014</u>	\$ <u>60,872</u>

**Investment and Deposit Risk**

*Interest Rate Risk.* Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

*Credit Risk.* The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$613,852 of the School's bank balance of \$713,852 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority:**

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.

**Note 3 - Deposits and Investments (Continued)**

- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Districts deposits are in accordance with state statutes.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	<b><u>Beginning Balances</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Adjustments</u></b>	<b><u>Ending Balances</u></b>
<b>Governmental Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 298,500	\$ -	\$ -	\$ -	\$ 298,500
Subtotal	<u>298,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,500</u>
<i>Capital assets being depreciated:</i>					
Building improvements	6,201,553	18,715	-	-	6,220,268
Furniture and equipment	234,140	42,503	-	-	276,643
Vehicles	418,926	63,553	125,115	-	357,364
Library Collection	<u>113,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,029</u>
Subtotal	<u>6,967,648</u>	<u>124,771</u>	<u>125,115</u>	<u>-</u>	<u>6,967,304</u>
<i>Less accumulated depreciation for:</i>					
Building improvements	(1,157,543)	(130,079)	-	-	(1,287,622)
Furniture and equipment	(86,812)	(17,239)	-	5,468	(98,583)
Vehicles	(313,344)	(38,173)	125,115	5,974	(220,428)
Library Collection	<u>(18,908)</u>	<u>(3,151)</u>	<u>-</u>	<u>-</u>	<u>(22,059)</u>
Subtotal	<u>(1,576,607)</u>	<u>(188,642)</u>	<u>125,115</u>	<u>11,442</u>	<u>(1,628,692)</u>
Net capital assets being depreciated	<u>5,391,041</u>	<u>(63,871)</u>	<u>-</u>	<u>11,442</u>	<u>5,338,612</u>
Governmental activity capital assets – net of depreciation	<u>\$ 5,689,541</u>	<u>\$ (63,871)</u>	<u>\$ -</u>	<u>\$ 11,442</u>	<u>\$ 5,637,112</u>



**Note 4 - Capital Assets (Continued)**

Depreciation Expense is allocated to the School District's activities as follows:

<u>Activity</u>	<u>Depreciation Expense</u>
Instruction	\$ 10,146
Support Services	40,215
Food Services	1,513
Athletics	1,874
Unallocated	<u>123,452</u>
Total	<u>\$ 177,200</u>

**Note 5 - Long-Term Debt**

The following is a summary of changes in the Long-Term Debt for the year ending June 30, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation School Building and Site Bonds dated June 11, 1998, payable in annual installments of \$45,000 through \$440,000, plus interest ranging from 4.875% to 6.375% through May 1, 2017.	\$ 4,030,000	\$ -	\$ 240,000	\$ 3,790,000	\$ 255,000
Land Contract dated July 2003, payable in annual installments of \$20,000 with no interest accrued through July 2006.	40,000	-	20,000	20,000	20,000
Durant School Improvement Bonds, Series 1998, dated November 1998, payable in annual installments of \$0 through \$9,840, plus interest at 4.76% through May 15, 2013.	25,385	-	1,923	23,462	2,014
School Equipment Bond, Series I, dated September 1, 2005, payable on May 1, 2006, plus interest at 3.75%.	-	70,000	70,000	-	-
Vested compensated absences	96,312	7,490	-	103,802	103,802
Vested retirement benefits	<u>112,100</u>	<u>73,500</u>	<u>30,900</u>	<u>154,700</u>	<u>38,500</u>
Total Long-Term Debt	<u>\$ 4,303,797</u>	<u>\$ 150,990</u>	<u>\$ 362,823</u>	<u>\$ 4,091,964</u>	<u>\$ 419,316</u>

**Note 5 - Long-Term Debt (Continued)**

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 419,316	\$ 188,661
2008	309,911	173,012
2009	321,511	159,747
2010	322,017	145,750
2011	337,127	130,769
2012-2016	1,942,082	401,864
2017-2021	<u>440,000</u>	<u>21,450</u>
Total	<u>\$ 4,091,964</u>	<u>\$ 1,221,253</u>

\$254,446 is available in the debt service fund to service the general obligation bonds. There are limitations and restrictions contained in the various bond indentures. The School District is in compliance with all significant limitations and restrictions.

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2006.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits**
**Sick Leave**

Vested sick leave is computed as follows:

<u>Employer Group</u>	<u>Rate/Day</u>	<u>Maximum Days</u>
Teachers	35.00	182
Administrators	35.00	182
Non-Certified	25.00	110
Transportation	25.00	110

Vested sick leave is paid to the employees upon retirement or termination.

**Vacation Days**

The Superintendent and Business Manager are allowed to vest 20 vacation days resulting in payment upon separation from service.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits (Continued)****Retirement Benefits**

Retirement benefits are vested to teachers and administrators who qualify for retirement under the terms of the State retirement plan in which the School District participates.

Retirement benefits are computed as follows:

- 1) \$100 for each year of service to Les Cheneaux.
- 2) \$4,900/year until retiree reaches age 62 (maximum 5 years).

The amount recorded as a current year expenditure for post-retirement stipends is \$38,500. Currently, six employees are receiving post-retirement benefits.

**Total Vested Benefits**

The total vested sick leave, termination benefits, and liability for unused vacation days at June 30, 2006 are summarized as follows:

Vested Sick Leave	\$ 100,696
Vested Vacation Days	3,106
Vested / Estimated Termination Benefits	<u>154,700</u>
Total	<u>\$ 258,502</u>

**Note 7 - Defined Benefit Pension Plan****Plan Description**

The District contributed to the statewide Michigan Public School Employee's Retirement System (MPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and currently operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by contacting the Michigan Public Schools Employees' Retirement System, P.O. Box 30026, Lansing, Michigan 48909.

**Note 7 - Defined Benefit Pension Plan (Continued)**
**Funding Policy**

Basic Plan members make no contributions. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount of fund retiree health care benefit amounts on a cash disbursement basis.

The rates for the year ended June 30, 2006 were 14.87% from July 1, 2005 through September 30, 2005 and 16.34% from October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees.

The District's contributions to MPSERS for the current and two preceding years were as follows:

Year Ended June 30,	Employer Contribution
2005	\$ 290,682
2004	273,000
2003	244,000

**Note 8 - Interfund Receivable and Payables, and Transfers**

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

**Interfund Payables:**

DUE FROM OTHER FUNDS							
DUE TO OTHER FUNDS	General Fund	Debt Service Fund	Food Service Fund	Athletic Fund	Capital Projects Fund	Total	
	General Fund	\$ -	\$ -	\$ 9,080	\$ 3,096	\$ 7,795	\$ 19,971
	Debt Service Fund	233	12,321	-	881		13,435
	Food Service Fund	21,950	-	(21,950)	-	-	-
	Capital Project Fund	42	7,821	-	-	-	7,863
	Total	\$ 22,225	\$ 20,142	\$ (12,870)	\$ 3,096	\$ 8,676	\$ 41,269

**Note 8 - Interfund Receivable and Payables, and Transfers (Continued)**
**Interfund Transfers:**

		TRANSFERS OUT			
		General Fund	Debt Service Fund	Capital Projects Fund	Total
TRANSFERS IN	General Fund	\$ -	\$ 63,553	\$ -	\$ 63,553
	School Lunch Fund	20,290	-	-	20,290
	Athletic Fund	67,116	-	-	67,116
	Debt Service Fund	-	-	20,000	20,000
	Total	<u>\$ 87,406</u>	<u>\$ 63,553</u>	<u>\$ 20,000</u>	<u>\$ 170,959</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 9 - Risk Management**

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 10 - Commitments and Contingencies**

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2006.

**Note 10 - Sinking Fund**

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds of Sinking Funds in Michigan.

## **Required Supplemental Information**

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# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance From Final Amended Budget
<b>Revenues:</b>				
<b>Local sources:</b>				
Taxes	\$ 2,033,734	\$ 2,036,581	\$ 2,037,444	\$ (863)
Delinquent taxes	-	32,559	33,987	(1,428)
Interest	22,000	44,480	46,479	(1,999)
Shared revenue	22,000	25,228	25,228	-
Charges for Services & Rents	13,350	12,350	15,253	(2,903)
Other	33,700	28,659	33,591	(4,932)
<b>Total Local Sources</b>	<b>2,124,784</b>	<b>2,179,857</b>	<b>2,191,982</b>	<b>(12,125)</b>
<b>State sources:</b>				
At Risk Students	118,000	110,861	110,861	-
Foundation Membership Grant	882,718	839,758	839,758	-
Special Education Headlee 51c	77,337	82,911	82,911	-
Durant Funds	4,000	3,974	3,974	-
<b>Total State Sources</b>	<b>1,082,055</b>	<b>1,037,504</b>	<b>1,037,504</b>	<b>-</b>
<b>Federal sources:</b>				
Title I	95,000	86,725	86,725	-
Title II	33,000	33,846	33,834	12
Title V	5,000	3,151	3,151	-
REAP-SRSA Grant	24,959	22,358	22,358	-
Title VII - A & D	25,591	23,316	23,316	-
Freedom to Learn		2,000	2,000	-
Impact Aid	30,000	64,882	64,882	-
Special Education Flow Through	47,000	49,500	49,500	-
Other	5,000	9,530	9,531	(1)
<b>Total Federal Sources</b>	<b>265,550</b>	<b>295,308</b>	<b>295,297</b>	<b>11</b>
<b>Total Revenues</b>	<b>3,472,389</b>	<b>3,512,669</b>	<b>3,524,783</b>	<b>(12,114)</b>
<b>Expenditures:</b>				
<b>Instruction:</b>				
Elementary	578,177	601,748	597,647	4,101
Middle School	353,549	349,107	308,858	40,249
High School	611,098	613,740	659,425	(45,685)
School Band	9,838	8,890	8,903	(13)
Indian Education	33,000	33,846	33,834	12
Special Education	213,594	231,639	232,139	(500)
Title I	95,000	86,725	86,725	-
REAP Grant	24,959	22,358	22,358	-
Title IIA	23,091	21,698	21,698	-
At Risk	118,000	110,731	110,731	-
Other Added Needs	8,575	3,000	3,000	-
<b>Total Instruction</b>	<b>2,068,881</b>	<b>2,083,482</b>	<b>2,085,318</b>	<b>(1,836)</b>



# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance From Final Amended Budget
<b>Support Services:</b>				
Guidance	70,171	69,822	70,059	(237)
Library	5,906	6,153	6,130	23
Computer Technology	73,714	85,220	85,458	(238)
Board of Education	62,603	63,332	73,947	(10,615)
Executive Administration	236,817	240,685	240,890	(205)
School Administration	259,922	272,523	273,474	(951)
Business Services	37,000	61,902	61,902	-
Operation and maintenance	332,905	362,252	363,477	(1,225)
Transportation	255,313	300,332	301,784	(1,452)
Advisors	9,919	8,255	8,255	-
Other Activities	69,730	575	596	(21)
Vocational Education:	52,000	34,330	34,330	-
<b>Total Support Services</b>	<u>1,466,000</u>	<u>1,505,381</u>	<u>1,520,302</u>	<u>(14,921)</u>
<b>Total Expenditures</b>	<u>3,534,881</u>	<u>3,588,863</u>	<u>3,605,620</u>	<u>(16,757)</u>
<b>Excess of Revenues (Expenditures)</b>	<u>(62,492)</u>	<u>(76,194)</u>	<u>(80,837)</u>	<u>4,643</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	-	63,553	63,553	-
Operating transfers out	-	(88,023)	(87,406)	(617)
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>\$ (62,492)</u>	<u>\$ (100,664)</u>	<u>(104,690)</u>	<u>\$ 5,260</u>
<b>Fund Balances - Beginning of year</b>			<u>391,355</u>	
<b>Fund Balances - End of year</b>			<u>\$ 286,665</u>	

# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Debt Service Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance From Final Amended Budget
<b>Revenues:</b>				
Taxes	\$ 504,377	\$ 504,377	\$ 507,675	\$ (3,298)
Proceeds from loans	70,095	70,095	70,095	-
Interest on investments	-	-	23,051	(23,051)
Total Revenue	574,472	574,472	600,821	(26,349)
<b>Expenditures:</b>				
Interest	206,186	206,186	207,178	(992)
Principal Payments	295,000	315,000	331,923	(16,923)
Other Costs	-	-	150	(150)
Total Expenditures	501,186	521,186	539,251	(18,065)
<b>Excess of Revenues over Expenditures</b>	73,286	53,286	61,570	(8,284)
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	20,000	20,000	20,000	-
Operating transfers out	(63,553)	(63,553)	(63,553)	-
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>\$ 29,733</u>	<u>\$ 9,733</u>	18,017	<u>\$ (8,284)</u>
<b>Fund Balance - Beginning of Year</b>			236,429	
<b>Fund Balance - End of Year</b>			<u>\$ 254,446</u>	

## **Other Supplemental Information**

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**Les Cheneaux Community Schools****Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

	Food Service	Athletics	Capital Projects	Total
<b>Assets</b>				
Cash and investments	\$ 9,775	\$ 4,246	\$ 8,981	\$ 23,002
Due from other funds	-	-	7,863	7,863
Inventories	1,206	-	-	1,206
Accounts receivable	1,025	-	-	1,025
Total Assets	<u>\$ 12,006</u>	<u>\$ 4,246</u>	<u>\$ 16,844</u>	<u>\$ 33,096</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Salaries and benefits payable	\$ 2,639	\$ -	\$ -	\$ 2,639
Due to other funds	9,080	3,096	8,676	20,852
Total Liabilities	<u>11,719</u>	<u>3,096</u>	<u>8,676</u>	<u>23,491</u>
<b>Fund Equity</b>				
Fund balance	<u>287</u>	<u>1,150</u>	<u>8,168</u>	<u>9,605</u>
Total Liabilities and Fund Equity	<u>\$ 12,006</u>	<u>\$ 4,246</u>	<u>\$ 16,844</u>	<u>\$ 33,096</u>

# Les Cheneaux Community Schools

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2006

	Non-Major Funds				
	Food Service	Athletics	Capital Projects	Permanent	Total
<b>Revenues:</b>					
Local sources					
Property taxes	\$ -	\$ -	\$ 89,387	\$ -	\$ 89,387
Athletic ticket sales and fees	-	47,731	-	-	47,731
Breakfast and lunch sales	37,785	-	-	-	37,785
Interest	1,113	440	31	13	1,597
Contributions	-	5,754	-	500	6,254
Other	1,660	-	-	-	1,660
State sources	7,240	-	-	-	7,240
Federal sources	76,231	-	-	-	76,231
Total Revenues	124,029	53,925	89,418	513	267,885
<b>Expenditures:</b>					
Salaries & benefits	102,672	67,198	-	-	169,870
Food purchases	40,298	-	-	-	40,298
Supplies, travel and equipment	1,053	-	-	-	1,053
Capital outlay	-	-	61,668	-	61,668
Uniforms	-	17,744	-	-	17,744
Officials & purchased services	-	19,566	-	-	19,566
Repairs	296	-	-	-	296
Dues and Fees	-	16,402	-	-	16,402
Miscellaneous	-	-	-	1,016	1,016
Total Expenditures	144,319	120,910	61,668	1,016	327,913
<b>Excess of Revenues (Expenditures)</b>	(20,290)	(66,985)	27,750	(503)	(60,028)
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	20,290	67,116	-	-	87,406
Operating transfers out	-	-	(20,000)	-	(20,000)
Total Other Financing Sources (Uses)	20,290	67,116	(20,000)	-	67,406
<b>Fund Balances - Beginning of year</b>	287	1,019	418	503	2,227
<b>Fund Balances - End of year</b>	\$ 287	\$ 1,150	\$ 8,168	\$ -	\$ 9,605

# Les Cheneaux Community Schools

## Schedule of Receipts and Disbursements Student Activities Fund Year Ended June 30, 2006

	Balance July 1, 2005	Receipts	Disbursements	Balance June 30, 2006
Band	\$ 1,117	\$ 168,760	\$ 171,624	\$ (1,747)
Band Trip	(21)	-	-	(21)
BB Fundraisers	1,109	11,690	11,940	859
Box Tops	515	554	508	561
Camp 6th Grade	-	1,700	325	1,375
Carnival	1,018	4,517	4,423	1,112
Class of 2004	268	-	75	193
Class of 2005	370	-	75	295
Class of 2006	561	423	515	469
Class of 2007	4,277	8,460	12,673	64
Class of 2008	1,733	3,190	1,565	3,358
Class of 2009	970	451	96	1,325
Class of 2010	273	-	-	273
Class Trip - 5th Grade	526	18,380	18,701	205
Computer Programming	13	-	-	13
CC Fundraiser	623	1,502	1,799	326
Drama Club	6,239	2,259	1,867	6,631
Elementary Artist	915	850	850	915
Elementary Office	589	3,136	3,512	213
Employee Recognition	500	-	190	310
FB Fundraisers	3,486	8,217	8,813	2,890
Frog Fest	1,134	958	-	2,092
Girls Softball	200	500	675	25
Golf Fund Raiser	171	53	200	24
High School Office	-	1,450	815	635
Interest and Service Charges	3,121	3,867	2,958	4,030
Journalism	(17)	-	-	(17)
Junior Achievement	245	-	-	245
Library	1,218	5,449	5,712	955
Mini-Grant	1	-	-	1
Miscellaneous	(381)	11,920	11,659	(120)
National Honor Society	(5)	1,812	1,593	214
Playground	162	1,800	-	1,962
Read A Thon	-	6,179	4,534	1,645
Recycling	25	330	328	27
Resource Room	1,962	-	-	1,962
Salmon-Fifth Grade	99	-	-	99
Scholarship	7,700	15,600	26,400	(3,100)
School Spirit	1,211	1,238	1,358	1,091
Shop	5,916	4,975	1,549	9,342
Elementary Student Council	2,357	576	481	2,452
Middle School Student Council	120	3,408	2,254	1,274
High School Student Council	(501)	10,903	10,196	206
Thespian	714	-	-	714
Tournaments	3,373	1,700	2,071	3,002
Track Resurface	1,113	-	-	1,113
UP All-Stars Sports	-	5,313	1,212	4,101
VB Fundraisers	508	-	-	508
Yearbook	9	10,645	10,333	321
<b>Total Cash Balances</b>	<b>\$ 55,536</b>	<b>\$ 322,765</b>	<b>\$ 323,879</b>	<b>\$ 54,422</b>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
St. Ignace, MI 49781

We have audited the financial statements of the Les Cheneaux Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Les Cheneaux Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and responses as items 06-1.

We also noted certain additional matters that we reported to management of Les Cheneaux Community Schools in a separate letter dated August 16, 2006.

This report is intended solely for the information of the Board of Education, management and federal and state awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 16, 2006

NONCOMPLIANCE WITH STATE STATUTES

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 06-1***

*Condition:* Our examination of procedures used by the Les Cheneaux Community School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2005-2006 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2005-2006 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended June 30, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund and debt service fund on pages 32 and 34 respectively, of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Recommendation:* We recommend that the School and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the general fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management's Response—Corrective Action Plan:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
Cedarville, Michigan 49719

We have audited the basic financial statements of Les Cheneaux Community Schools for the year ended June 30, 2006, and have issued our reports thereon dated August 16, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Les Cheneaux Community School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

In planning and performing our audit, we considered Les Cheneaux Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Les Cheneaux Community School are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by Les Cheneaux Community School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Les Cheneaux Community School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Les Cheneaux Community School, either individually or in the aggregate, indicate matters that could have a significant effect on the Les Cheneaux Community School's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Les Cheneaux Community Schools or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Les Cheneaux Community School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

#### **Flexible Spending Account**

Although there is a plan administrator disbursing funds from the flexible spending account, the disbursements from this account requires Board approval as they do the disbursements from all the other accounts.

#### **Disbursements**

We noted in our review of the disbursements, that purchase orders were not always attached with the check voucher. It is recommended that purchase orders be issued. Repetitive ordering or purchasing may also be accomplished by a blanket purchase order for a particular vendor which indicates a maximum.

#### **Payroll**

It was noted during our review of payroll, new hire forms were completed online, but there was no printed documentation of this in the file. It is recommended the finished new hire form be printed out for documentation of the completed form.

We noted some I-9 Forms were not filled out completely. Columns B and C were not completed. We recommended more care be taken to fully complete the I-9 Forms for employees.

#### **Receipts**

During our review of the receipts system controls, we noted a lack of account numbers on the receipt itself. It is recommended that account numbers be put onto the actual receipt to assist in proper posting of the receipt to the general ledger.

It was also noted during our review of the receipts, that an Excel receipt worksheet is used to track receipts coming into the Central Office secretary. The worksheet does not include all receipts coming in. It is recommended that all receipts be put onto the Excel receipt worksheet and the worksheet be included in the monthly reconciliation process monthly.

## **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, which requires the School District implement the Statement for the year ended June 30, 2010. GASB Statement 45 impacts the future accounting of post-employment health insurance costs as it relates to the amount the School District will be required to fund these benefits. The School District will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Education as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 16, 2006